



July 20, 2004

Jennifer J. Johnson  
Secretary, Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N. W.  
Washington, DC 20551

**Re: Notice of proposed rulemaking: Risk-Based Capital Standards:  
Trust Preferred Securities and the Definition of Capital  
Docket No. R-1193**

Dear Ms. Johnson,

The Conference of State Bank Supervisors (CSBS)<sup>1</sup> welcomes the opportunity to comment on the notice of proposed rulemaking (Proposal): *Risk-Based Capital Standards: Trust Preferred Securities and the Definition of Capital*. Many state chartered banks have utilized the proceeds of trust preferred securities issued by their holding companies. Accordingly, we are interested in seeing this relatively low cost capital continue to be included in Tier 1 capital.

CSBS agrees that a change in accounting rules does not change the fundamental concepts that resulted in Tier 1 inclusion initially. As such, we support the Proposal and commend the Board of Governors on its efforts to codify the inclusion of trust preferred securities into Part 225, Bank Holding Companies and Change in Bank Control (Regulation Y).

CSBS would like to clarify one issue with the Proposal, however. Appendix A of the current Bank Holding Company Act states that “Tier 1 capital is generally defined as the sum of core capital elements less any amounts of goodwill, other intangible assets, interest only strips receivable and nonfinancial equity investments that are required to be deducted...” The Proposal contains a similar definition of Tier 1 capital, however, we noted a slight difference in the clarification on the 25% limit on restricted core capital elements. Specifically, the proposal states, “The aggregate amount of restricted core capital elements that may be included in a banking organization’s Tier 1 capital must not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill.” (Appendix A section II.A.1.b.)

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<sup>1</sup> CSBS is the national organization of state officials responsible for chartering, regulating and supervising the nation’s 6,343 state chartered commercial and savings banks and over 400 state-licensed branches and agencies of foreign banks.

**CONFERENCE OF STATE BANK SUPERVISORS**

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Is it the Board of Governor's intention that the limitation on restricted core capital elements should be based on a revised calculation of Tier 1 capital? If so, we seek clarification regarding why goodwill was chosen as the only deduction from the total of core capital and restricted core capital elements? Although such a limitation may in some instances result in a lower amount of restricted core capital elements available for inclusion in Tier 1 capital, it seems that such an approach would result in an inconsistency.

Thank you for the opportunity to provide these comments, and we invite you to contact us if we can provide additional information or clarification on this issue.

Best personal regards,

A handwritten signature in black ink, appearing to read "Neil Milner". The signature is fluid and cursive, with the first name "Neil" and last name "Milner" clearly distinguishable.

Neil Milner  
President and CEO